

VAT: Cost Sharing Exemption

Who is likely to be affected?

All businesses and organisations that have exempt and/or non-business activities for VAT purposes and that want to join with similar businesses and organisations to share costs. Eligible businesses and organisations include charities, universities, further education colleges, banks, housing associations, and insurance companies.

General description of the measure

This measure allows groups to exempt from VAT, supplies made to their members, provided certain conditions are satisfied.

Policy objective

This measure supports the Government's objective of a fair tax system by reducing one of the barriers to cooperation and collaboration between qualifying businesses and organisations by removing the associated VAT costs that currently inhibit such practices.

Background to the measure

The March 2010 Budget announced that discussions would take place with relevant sectors to consider options for implementing this exemption.

Following informal discussions, a formal consultation began on 28 June 2011 and ended on 30 September 2011.

Detailed proposal

Operative date

The measure will have effect on and after the date of Royal Assent to the Finance Bill 2012.

Current law

There is currently no provision in the VAT Act 1994 for the Cost Sharing Exemption, as set out in Article 132(1)(f) of the Principal VAT Directive (PVD).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to implement Article 132(1)(f) of the Principal VAT Directive (PVD). The wording of the PVD will be transposed with the minimum feasible variation into UK legislation.

The legislation will introduce a new Group 16 to Schedule 9 of the VAT Act 1994 – Supplies of services by groups involving cost sharing.

A new subsection (3) will be included in section 31 of the VAT Act 1994, allowing regulations to be made in accordance with Article 131 of the PVD.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	-	-25	-50	-75	-100	-125
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	<p>Organisations such as charities, universities, further education colleges and housing associations are looking to achieve efficiency savings by sharing services with each other and the VAT charge can be a barrier to this collaboration. Implementing the cost sharing exemption will remove the VAT cost in certain circumstances.</p> <p>It is anticipated that introducing the exemption could facilitate efficiencies for educational institutions, charities and housing associations, tentatively estimated at £100 million in cost savings for businesses (excluding VAT savings).</p>					
Impact on individuals and households	There is no direct impact on individuals and households as the measure is intended to benefit businesses or organisations that perform exempt and/or non-business activities. However individuals and households could ultimately benefit if lower costs are passed through to prices.					
Equalities impacts	The Government does not believe that the exemption will have any impact on people with protected characteristics. However, by enhancing the scope for cost sharing it can help civil society organisations who support equality groups.					
Impact on business including civil society organisations	The exemption will, in certain circumstances, remove the VAT charge that is often seen as a barrier to businesses and organisations that undertake VAT exempt and/or non-business activities sharing services. It is also expected that the exemption will facilitate efficiency savings.					
	As a result of responses to the consultation we have adjusted the criteria that must be met in order to establish the necessary independence of the group from its members. This modification is expected to increase the number of businesses and organisations able to benefit from the exemption.					
	To take advantage of the exemption businesses and organisations are expected to form new cost sharing vehicles. The associated administrative costs come mainly from registering for VAT and filing returns, setting up and running a PAYE and pension scheme, registering and filing for corporation tax, and the time taken by businesses to familiarise themselves with the conditions of the exemption. It is estimated that the average annual additional administrative costs will be in the range of £350,000 to £550,000.					
		Cost		Time Period (yrs)		
	Compliance Costs					
	One-off Costs		Negligible		N/A	
	Average Annual Costs		£350K - £550K		N/A	
	Total Costs (PV)		N/A		N/A	
	Compliance Benefits					
	One-off Benefit		Negligible		N/A	
Average Annual Benefit		Negligible		N/A		

	Total Benefit (PV)	N/A	N/A
	Net Benefit (NPV)	N/A	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£350K to £550K	Negligible	+£350K to £550K
Operational impact (£m) (HMRC or other)	HM Revenue & Customs (HMRC) will not be introducing any bespoke arrangements regarding the operation of the exemption and the usual compliance processes will apply. HMRC does not anticipate that the implementation of the exemption will have any material operational impact.		
Other impacts	<p><u>Small firms impact test:</u> Responses to the consultation document indicated that the model proposed would be of greater use to larger businesses and organisations. Therefore, the model proposed in the consultation document has been revised to make the exemption more usable by smaller sized businesses and organisations.</p> <p><u>Competition assessment:</u> The measure is not expected to cause a distortion of competition, which is a specific condition of the exemption, as any cost sharing groups will be in the same position as if they had provided the services internally.</p>		

Monitoring and evaluation

The measure will be monitored through engagement with businesses and organisations affected. Areas that could help assess the extent to which the policy is achieving its objectives include the number of businesses adopting shared services business models and the value, and benefit, of services moving to a shared services arrangement.

Further advice

If you have any questions about this change, please contact David Bond on 020 7147 0058 (email: david.bond2@hmrc.gsi.gov.uk).

EXPLANATORY NOTE

EXEMPT SUPPLIES

SUMMARY

1. This clause implements Article 132(1) (f) of Council Directive 2006/112/EC, the Principle VAT Directive (“PVD”). It adds a new Group 16 (supplies of services by groups involving cost sharing) to Schedule 9 (“Schedule 9”) of the Value Added Tax Act 1994 (“VATA”) which exempts from VAT the supply of services by a group which consists of persons engaged in exempt or non-taxable activities so long as the services are supplied to group members at cost and for the purposes of those activities.
2. This clause also introduces a power, allowing the Treasury to impose conditions in connection with the application of the exemption.

DETAILS OF THE CLAUSE

3. Section 31 of VATA provides that supplies described in Schedule 9 are to be treated as exempt from VAT. The exempt supplies are itemised in a number of different groups in Part II of that Schedule in accordance with their subject matter (for example exempt supplies relating to land are itemised in Group 1). There is an index to the groups in Part 1 of Schedule 9. There is currently no provision in VATA for the exemption contained in Article 132(1)(f) of the PVD.
4. Subsection (1) inserts a reference to a new Group 16 into the Schedule 9 index.
5. Subsection (2) inserts a new Group 16 (supplies of services by groups involving cost sharing) into Part II of Schedule 9 which describes the exempt supply as a supply of services by an independent group of persons subject to four conditions namely:
 - the members of the group are each engaged in exempt or non-taxable activities;
 - the supply is made for and directly necessary for those activities;
 - the group merely claims exact reimbursement for those services; and
 - relief from taxation is not likely to cause distortion of competition.

1 Exempt supplies

- (1) In Part 1 of Schedule 9 to VATA 1994 (index to exempt supplies of goods and services), at the appropriate place in the table insert –

“Supplies of services by groups involving cost sharing	Group 16”
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- (2) In Part 2 of that Schedule (the groups), at the end insert –

“GROUP 16 – SUPPLIES OF SERVICES BY GROUPS INVOLVING COST SHARING

Item No

- | | |
|---|--|
| 1 | The supply of services by an independent group of persons where each of the following conditions is satisfied – |
| | (a) each of those persons is a person who is carrying on an activity (“the relevant activity”) which is exempt from VAT or in relation to which the person is not a taxable person within the meaning of Article 9 of Council Directive 2006/112/EC, |
| | (b) the supply of services is made for the purpose of rendering the members of the group the services directly necessary for the exercise of the relevant activity, |
| | (c) the group merely claims from its members exact reimbursement of their share of the joint expenses, and |
| | (d) the exemption of the supply is not likely to cause distortion of competition.” |
- (3) In section 31 of that Act (exempt supplies and acquisitions), after subsection (2) insert –
- “(3) The Treasury may by regulations make an exemption of a group 16 supply of a description specified in the regulations subject to conditions.
- (4) Regulations under subsection (3) may –
- (a) make different provision for different cases, and
- (b) make consequential or transitional provision (including provision amending this Act).”
- (5) In subsection (3) “group 16 supply” means a supply falling within Group 16 of Schedule 9.”

6. Subsection (3) inserts new subsection 31(3) to (5) into VATA, allowing the Treasury to make regulations imposing conditions in connection with the operation of the exemption in the new group 16 and to make consequential and transitional provisions in that connection (including amendment to primary legislation).

BACKGROUND NOTE

7. The exemption reduces a barrier that might prevent businesses and organisations that have exempt and/or non-business activities for VAT purposes from joining with others to share costs...
8. Businesses and organisations that have exempt and/or non-business supplies are not able to reclaim the VAT they incur on their purchases that relate to such supplies (irrecoverable VAT). If they co-operate by forming a group to provide them with services necessary to their exempt/non-business activity they would normally pay VAT on the supply of those services. This exemption relieves such supplies from VAT but only where the services are supplied by the group to group members at cost and only if relief from VAT does not itself distort competition.
9. The exemption is defined in broad and general terms in the PVD and this is reflected in the clause. HMRC will develop detailed guidance in consultation with taxpayers in order to provide a clear framework within which the exemption can operate effectively and to the benefit of taxpayers whilst ensuring the scope for avoidance or abuse is limited.
10. The exemption will benefit all sectors undertaking exempt and/or non-business activities including charities, universities, further education colleges, banks, housing associations and insurance businesses.
11. If you have any questions about this change, or comments on the legislation, please contact David Bond on 020 7147 0058 (email: david.bond2@hmrc.gsi.gov.uk).